



Competition and pricing in the Dutch mail market

WIK Postal seminar

Content

- Competitive landscape
- Legal developments ‘per sender’
 - Legal framework (Article 9 – Postal Act) before 1 August 2017
- Significant market power
 - SMP-decision and obligations since 1 August 2017

Competitive landscape

Competition business market (1)

- 72h+ business mail:
 - end-to-end competition PostNL and Sandd
- 24h business mail:
 - increasing competition between PostNL and regional operators (Van Straaten Post, Intrapost, Cycloon Post, etc)
 - regional operators dependent on access from PostNL:
 - around 40% of volume delivered by PostNL
 - expanding their own delivery networks

Competition business market (2)

- Competition leads to shifts in market shares:

Partij	2014		2015		2016	
	Omzet	Volume	Omzet	Volume	Omzet	Volume
PostNL	80 - 85%	70 - 75%	80 - 85%	70 - 75%	75 - 80%	70 - 75%
Sandd	10 - 15%	20 - 25%	10 - 15%	25 - 30%	10 - 15%	20 - 25%
Rest	0 - 5%	0 - 5%	5 - 10%	0 - 5%	5 - 10%	5 - 10%

Marktaandeelen o.b.v. omzet en volume, 2014 - 2016.

- Recent developments:
 - obligation to have 80% of mail deliverers on labour contract
 - take over of Van Straaten Post (nr 3) by Sandd (nr 2)



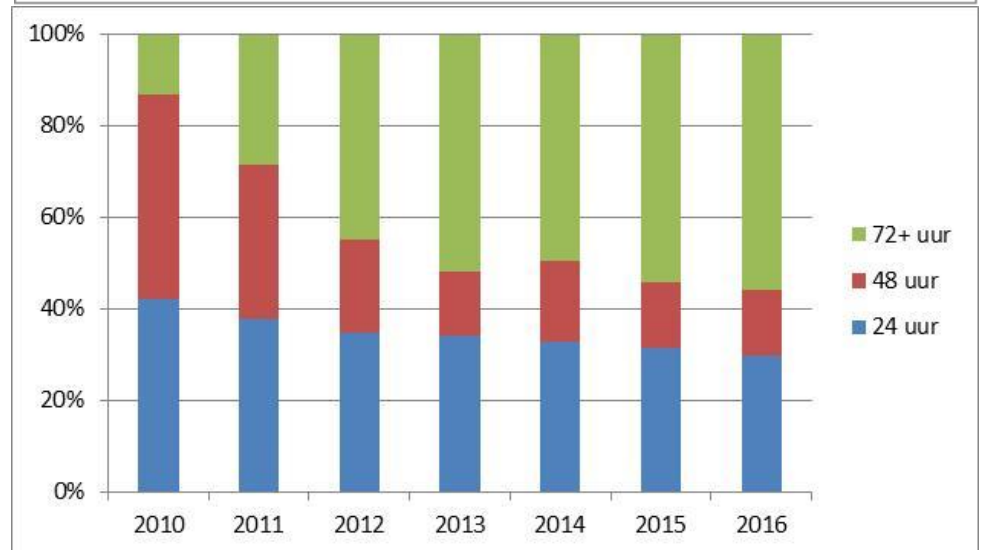
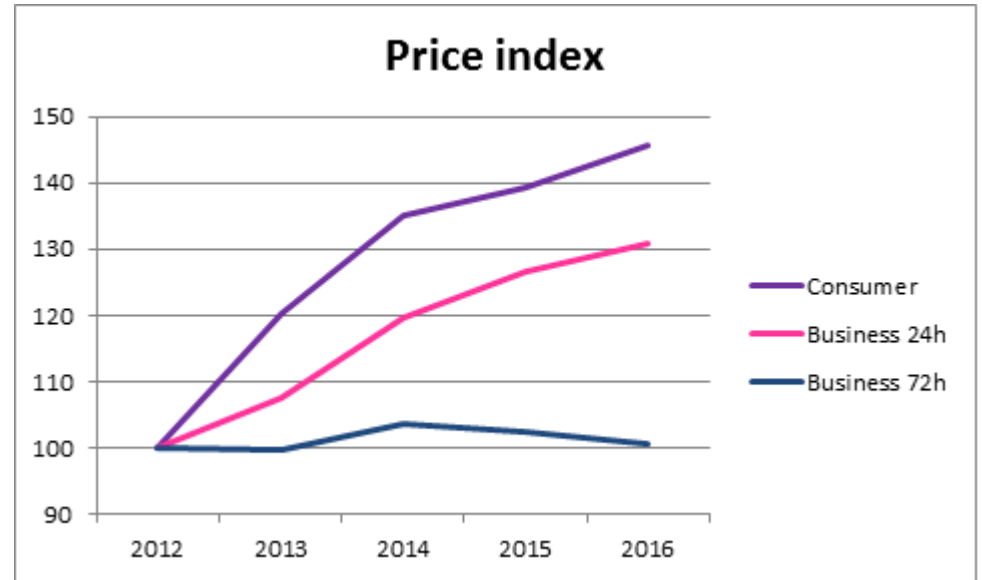
Competition consumer market

- Sandd entered this market in 2017 with focus on Christmas period:
 - Two-day delivery a week
 - Tariff 50 cent vs. 73 cent of PostNL
- According to newspapers Sandd sold around 12 million stamps (out of total volume of around 100 million)



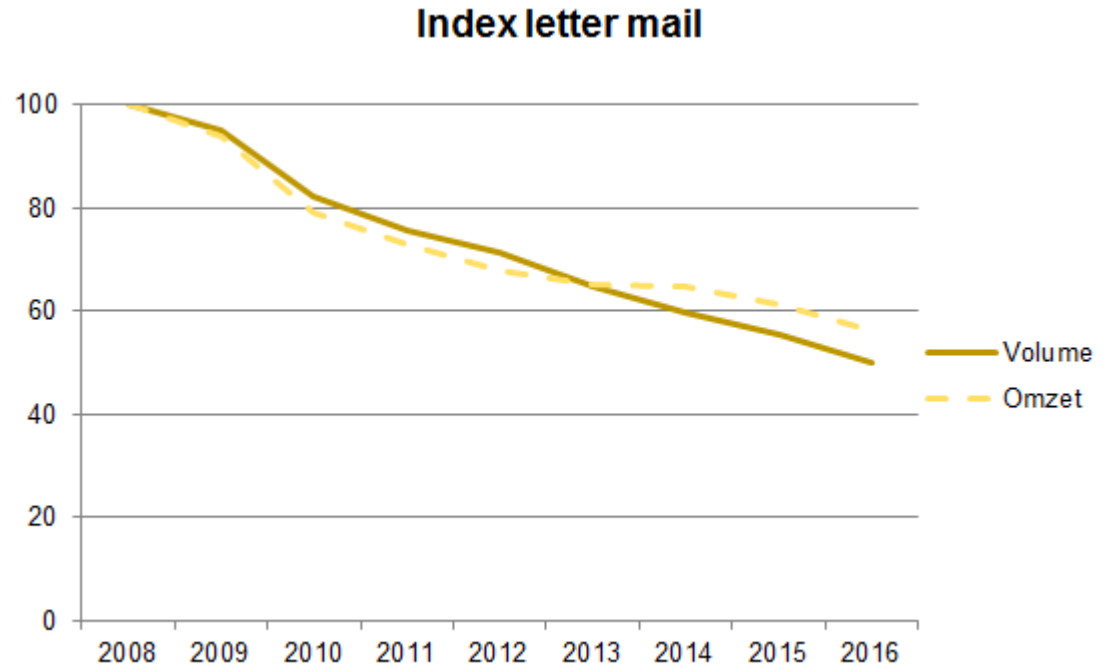
Effects of competition

- Price development correlated with level of competition
- Competition leads to more diverse service portfolio



Prospects for competition

- Due to volume declines economics for mail-only delivery are getting worse



- But...
 - ✓ Letterbox packets grow
 - ✓ Potential synergies with parcel delivery
 - ✓ Potential for combining mail delivery with other services
 - ✓

Legal developments ‘per sender’

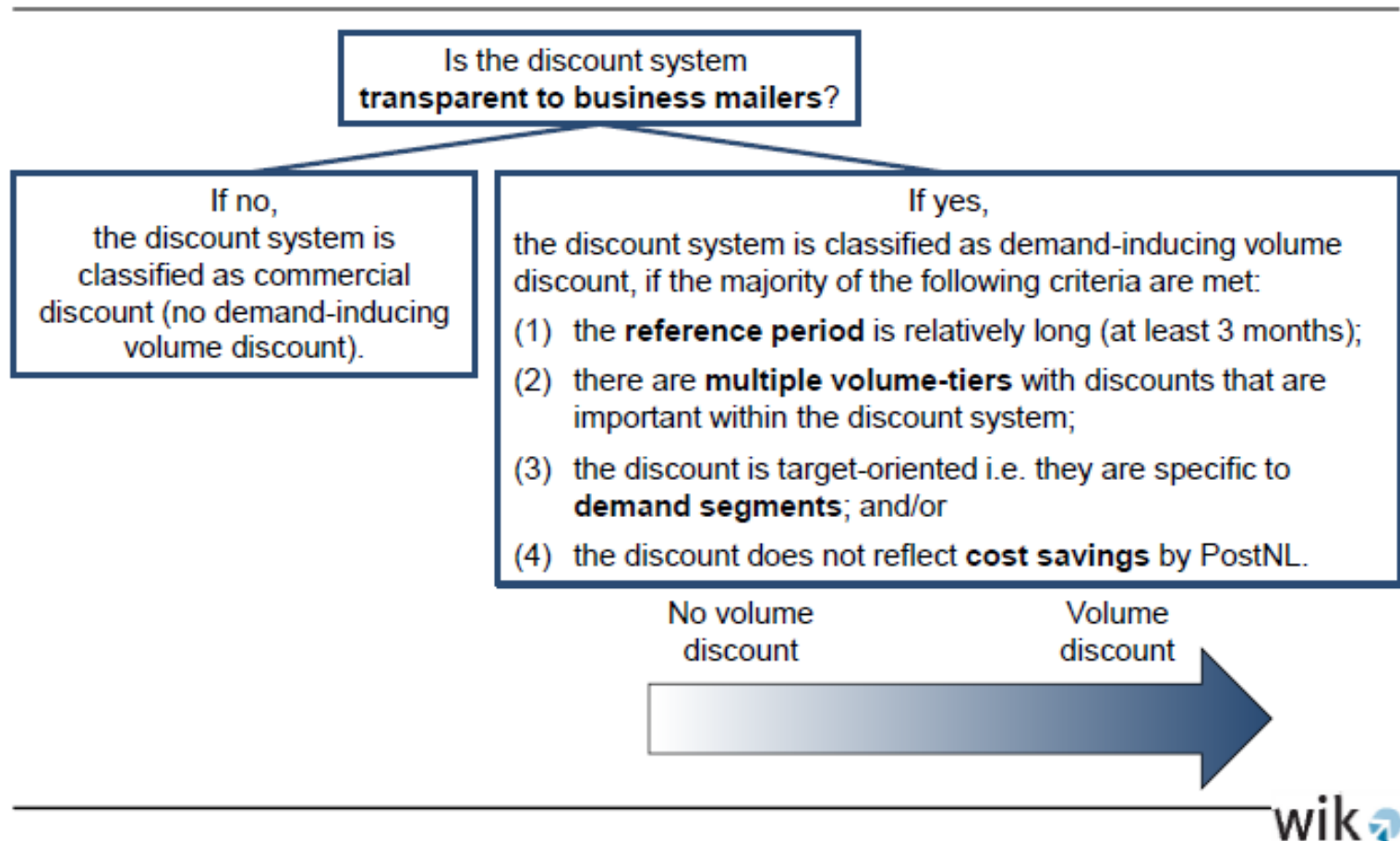
Uniform sender Address case (UA)

- Requirement that consignments contain uniform sender address
- ACM decision: discriminatory
- Confirmed by court
- Rejected by high court (CBb) on 8 November 2016:
 - Potentially discriminatory, but
 - Not sufficiently demonstrated that consignments with more sender addresses do not require more handling than consignments with a uniform sender address
 - Not sufficiently demonstrated that discount scheme is not volume stimulating (as meant in the Bpost-case)

Diverse sender Address surcharge (DIVA)

- Surcharges for consignments with more than one sender address
- ACM decision (1 May 2015): discriminatory
- Due to CBb verdict in UA-case extra research ACM on 1. handling and 2. essence of discount
- ACM published new decision on 15 May 2017:
 - Discriminatory
 - More sender addresses do not require more handling
 - Discount scheme is not volume stimulating
- Confirmed by court 25 January 2018
- Appeal to CBb expected

WIK research classification discounts



Source: WIK

- Conclusion WIK: most discounts do not qualify as volume discounts

Court verdict 25 January 2018

- Court confirms findings of ACM that consignments with more sender addresses do not require more handling
- Based on WIK research ACM concluded that discount scheme DIVA is not a volume stimulating discount. Court confirms:
 - Reference period is only 1 day
 - Highest discount easily reached
 - Demand relatively inelastic
 - Discount looks more like operational discount

Significant market power (SMP)

SMP instrument

- Market analysis / SMP instrument since 2014
- Setup comparable with telecoms:
 - Defining relevant markets
 - SMP designation
 - Identify potential competition problems
 - Proportional remedies
- First final decision published on 27 July 2017:
 - Access remedies for 24h business mail in place per 1 August 2017
 - Currently implementation of obligations
 - Appeal pending

Remedies

- Objectives of regulation:
 - fostering infrastructure competition; not aimed at pure consolidators
 - access limited to 70% of volume, to complement regional coverage competitors
- PostNL has to offer at least 5 access products:
 - 1. wholesale small; 2. wholesale big; 3. wholesale special; 4. wholesale mixed and 5. wholesale letterbox packets
 - 1, 2 and 3 sorting machine ready
 - More sender addresses can be bundled
 - Other access products upon reasonable request

Tariff obligation (1)

- In first drafts tariffs for postal operators linked to retail tariffs PostNL
- Main issues:
 - Which retail tariffs?
 - Could limit retail competition
 - Risk that PostNL could not cover its costs
- In final (draft) decision switch to cost oriented tariffs

Tariff obligation (2)

- Cost system:
 - same system as used for USO (activity based costing)
- Cost base:
 - wholesale (access) costs of PostNL
 - return on invested capital (WACC)
 - retail costs excluded
- Main issues:
 - Possible negative margin for other postal operators in segments with high retail volume discounts
 - How to give incentives to use sorting machine ready products?

Economic effects (1)

- Policy rule by Ministry of Economic Affairs requires analysis of economic effects
- Model developed by Frontier Economics:
 - differentiated Bertrand model
- Relevant reference is situation without regulation
 - in addition ACM made comparison with situation with article 9
- Impact on sustainability of USO

Economic effects (2)

Economic effects 2018-2020 compared to no regulation

Optie	Producenten-surplus PostNL	Producenten-surplus anderen	Consumenten-surplus	Totale surplus
A – kostenoriëntatie	-54,8	-1,5	72,2	15,8
B – gemiddelde retailprijs	-68,3	-1,5	89,1	19,3
C – gunstigste retailprijs	-77,6	-1,5	100,7	21,6
D – <i>per sender</i>	-5,5	-0,3	7,6	1,8

Effect on PostNL compared to article 9

Jaar	2018	2019	2020
Producentensurplus PostNL	7,6	5,6	4,0

Round up

- Dutch case shows that competition in postal markets is possible, both for business senders and consumers
- Access-based competition beneficial for senders. Financial impact SMP-operator acceptable
- Challenge for all operators to switch to new business models in broader delivery market

Relevant documents

- Link to post and parcel monitor:
<https://www.acm.nl/en/publications/publication/17561/More-parcels-and-less-mail-delivery-in-2016>
- Link to court verdict (in Dutch):
<https://www.uitspraken.nl/uitspraak/rechtbank-rotterdam/bestuursrecht/bestuursrecht-overig/eerste-aanleg-meervoudig/ecli-nl-rbrot-2018-374>
- Link to SMP decision:
<https://www.acm.nl/sites/default/files/documents/2018-01/decision-significant-market-power-24-hours-business-mail-2018-01-12.pdf>